

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON

May 22, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: **February 28, 2007**

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: **333-91191**

INTERMOUNTAIN REFINING CO., INC.

(Name of small business issuer in its charter)

NEW MEXICO

(State or other jurisdiction of incorporation or organization)

74-2329327

(I.R.S. Employer Identification Number)

**1921 Bloomfield Boulevard
Farmington, New Mexico 87401
Telephone: (505) 326-2668**

(Address, including zip code, and telephone number, including area code, of issuer's principal executive offices)

Securities registered under Section 12(b) of the Exchange Act: **None**

Securities registered under Section 12(g) of the Exchange Act: **None**

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act ☐

Note - Checking the box above will not relieve any Registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

-Continued-

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes _____ No X

State issuer's revenues for its most recent fiscal year: **\$850,764**

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act) **N/A as of April 30, 2007. There presently is no market maker for the Registrant's common stock. As no public trading market exists for the stock, bid and ask prices are not available.**

Note: If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

(ISSUERS INVOLVED IN BANKRUPTCY PROCEEDING DURING THE PAST FIVE YEARS)

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes _____ No _____

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **1,155,609 shares of common stock, no par value, were outstanding on April 30, 2007.**

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g. Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The list documents should be clearly described for identification purposes (e.g. annual report to security holders for fiscal year ended December 24, 1990).

Certain exhibits required to be filed in Part IV of this Form 10-KSB have been incorporated by reference to Intermountain's registration statement on Form S-1 dated April 9, 2001. See exhibit index on page 34 of this report.

Transitional Small Business Disclosure Format (check one) Yes _____ No X

Cross Reference Sheet

The Registrant has included all information required in Parts I, II and III of Form 10-KSB in its Integrated Annual Report to Shareholders as of February 28, 2007 as filed herein as part of this report. The following table provides a cross reference to the specific pages and sections of the Integrated Annual Report to Shareholders where the information required in Form 10-KSB may be found:

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Intermountain Refining Co., Inc.

Integrated Annual Report to Shareholders

February 28, 2007

The information contained within this report is intended to provide all information required to comply with the Securities Exchange Act of 1934 disclosure requirements of Form 10-KSB except for required exhibits and disclosure about reports filed on Form 8-K for which disclosure has been included in our Form 10-KSB as filed with the Securities and Exchange Commission on May 22, 2007. You may obtain a copy of our Form 10-KSB as filed by submitting a written request to Intermountain Refining Co., Inc., PO Box 35, Farmington, NM 87499 or you can access our public filings on the internet at "www.sec.gov" by searching the Edgar Database on "Intermountain Refining".

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Intermountain's Business Activities

Intermountain was incorporated under the laws of the state of New Mexico in January 1984 and conducts its business in the following areas:

- Production of oil and natural gas
- Leasing of asphalt products manufacturing and storage facilities
- Other business activities including leasing unused space in Intermountain's office building

Natural Gas Production

On August 1, 2004, we acquired an estimated 12.28% working interest (9.98% net revenue interest) in 15 natural gas wells located on approximately 5,420 gross acres in San Juan County New Mexico. The wells are operated by an unrelated third party. During the year ended February 28, 2006, we participated in the drilling of one in-fill well on the lease acreage.

On February 28, 2007, we sold all of our interests in 19 natural gas producing wells that we operated in Southwestern Kansas. Projections of future cash flows associated with the Kansas properties were expected to decline significantly due to the old age of the subject producing wells coupled with recent changes made by Oneok Field Services to the gas purchase and sale agreement. Day to day operation and maintenance of the wells was performed by an individual under contract with Intermountain.

In the past, sales of natural gas from our Kansas properties represented a significant portion of our total revenues. We are presently seeking to acquire, through purchase or merger, additional oil and/or natural gas producing properties within the United States, to replace revenues and cash flows lost due to the sale of the Kansas properties.

Crude Oil Production

Effective as of November 1, 2005 we sold our 90% working interest (72% net revenue interest) in the oil producing properties located in Kimball County, Nebraska. The property consisted of approximately 640 gross acres with two producing wells, two water flood injection wells, one fresh water well, equipment and contracts. The properties were operated by an unrelated third party. This property did not provide a significant source of revenues for Intermountain. Intermountain does not presently own any other crude oil producing properties.

Leasing of Asphalt Products Manufacturing and Storage Facilities

Since January 2002, Paramount Petroleum Corporation has leased a portion of our asphalt facilities located in Fredonia, Arizona. Material provisions of the lease agreement with Paramount include the following:

- Paramount is responsible for the operation and maintenance of the asphalt storage and manufacturing facility and is obligated to reimburse Intermountain for any direct costs that we may incur with respect to Paramount's operation of the facility during the term of the agreement. Intermountain is responsible for maintenance and other costs associated with the facility that is not being used by Paramount.
- The primary term of the agreement was for two years beginning on January 1, 2002 and expired on December 31, 2003. Since the expiration of the agreement's original term, it has been automatically extended on a year to year basis. The agreement may be cancelled by either party upon 90 days advance notification prior to the end of any extended term. As the agreement was not terminated prior to December 31, 2006, the term of the agreement has been automatically extended to December 31, 2007. There is no assurance that Paramount will continue leasing the facility beyond the end of the current extended term.
- Paramount pays \$3,200 per month for rent of Intermountain's asphalt products storage and manufacturing equipment.
- In addition to basic equipment rent, Paramount pays a fee of \$5.50 per ton for all asphalt products shipped from the facility. In the event that total shipments of asphalt products exceeds 10,000 tons during a calendar year, Paramount will pay a supplemental fee of \$4.50 per ton applicable to all volumes shipped during the year.

Other Business Activities

We lease unused office space in our Farmington, New Mexico office building to unrelated third parties and actively manage the building. Revenues from office leasing varies between \$13 and \$25 per square foot annually depending on the type of space rented and additional services provided to tenants such as secretarial, phone

answering, cleaning, and office machine use. Leasing of office space should not be viewed as a material source of revenues for Intermountain.

Employees

We presently employ three people, including officers, who are salaried and employed on a full time basis in our administrative offices in Farmington, New Mexico. All full time employees are eligible to participate in Intermountain's SIMPLE IRA Plan and a group medical insurance program. None of our employees are represented by a union and management believes its employee relations to be satisfactory.

Research and Development Activities

We have not spent any material amount on research or development activities since our inception.

Government Regulations, Environmental Laws and Taxes

Our business is subject to certain national, state and local laws and regulations relating to the production and transportation of oil, natural gas and the processing of hydrocarbons, as well as environmental and safety matters. Many of these laws and regulations have become more stringent in recent years, imposing greater liability on a larger number of potentially responsible parties. We believe we have complied in all material respects with these laws and regulations. Because the requirements imposed by such laws and regulations are frequently changed, we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations.

The operation of gas fields and the processing of hydrocarbons inherently involve environmental risks. These risks can be minimized, but not eliminated, through the use of various engineering and other technological methods. We intend to employ such methods to industry standards.

Severance taxes on oil and natural gas production are collected and paid by the first purchaser of the production.

Competition

The petroleum and natural gas industries are highly competitive. We encounter competition from other oil and gas and petroleum companies in all of our operations, including the acquisition of producing properties, obtaining services, including oil field services, and the sale of natural gas. Our competitors include integrated petroleum and natural gas companies and numerous independent oil and gas companies, and individuals. Many of these competitors are large and well established with substantially larger operating staffs and greater capital resources and who, in many instances, have been engaged in the energy business for a much longer time than Intermountain. Such competitors may be able to develop better information and provide better analysis of available information, to pay more for raw materials and productive oil and natural gas properties and exploratory prospects and to define, evaluate, bid for and purchase a greater number of properties and prospects than our resources permit.

The market for the asphalt products produced at our asphalt storage and manufacturing facility in Fredonia, Arizona is generally located in northwestern Arizona and southwestern Utah. Paramount competes for market share with various suppliers throughout this region. The long term success of our equipment lease to Paramount is greatly dependent on Paramount's ability to compete with the other suppliers in the region.

Seasonality

Traditionally, the demand for natural gas has been higher during colder winter months compared to warmer summer months. More recently however, demand for natural gas has increased during summer months due to an increase in gas fired electric generation facilities. Accordingly, over the past several years, seasonal variation of natural gas supply and demand has been somewhat diminished.

The use of asphalt products for highway construction, repair and maintenance is usually restricted during winter months where cold weather, rain and snow are factors. We expect that the majority of fees earned from the shipment of asphalt products will occur during the months of May through October and that the asphalt manufacturing facility will normally be idle during the months of December through March.

Description of Properties

All properties used in the conduct of our businesses are owned in fee except for the mineral leases associated with our natural gas properties, which are held by production. There are no outstanding mortgages on any of our properties.

We own an average 12.48% working interest (9.98% net revenue interest) in 15 natural gas producing wells on 5,420 gross acres in San Juan County, New Mexico. During the year ended February 28, 2006, we participated in the drilling of 1 in-fill well located on the lease acreage. As of February 28, 2007, the proven producing reserves are estimated to be 311 million cubic feet of natural gas net to our interest. During the year ended February 28, 2007, we produced 25 million cubic feet of natural gas net to our interest.

On February 28, 2007, we sold all of our interest in the Kansas properties. The properties consisted of an average 98.4% working interest (average 79.7% net revenue interest) in 19 producing natural gas wells on 10,601 gross lease acres in Scott and Finney Counties in southwest Kansas. For the year ended February 28, 2007, we produced 139 million cubic feet of natural gas net to our interest.

Effective as of November 1, 2005, we sold our entire interest in the Nebraska properties. The properties consisted of a 90% working interest (72% net revenue interest) in 2 producing oil wells on 640 gross lease acres in Kimball County, Nebraska.

No reserve estimates of our oil and gas properties have been filed with any Federal authorities or agencies.

Additional information relative to our oil and natural gas reserves and activities is included in Note M of our February 28, 2007 financial statements included on page 28 of this report. Estimates of reserves are based on internal data prepared by us and should not be construed as exact quantities. Estimates of reserves are subject to future changes based on numerous factors, including, but not limited to, changes in future market prices, changes in transportation and gathering system operating conditions and arrangements, changes in operating and production costs, changes in production characteristics of individual wells, and changes in regulatory requirements. Many of the factors affecting changes in reserve estimates are unpredictable and beyond our control.

Our asphalt storage and manufacturing facility is situated on 18 acres of fee-owned land in Fredonia, Arizona. Our asphalt storage and manufacturing equipment is presently leased to Paramount and portions of the asphalt products manufacturing equipment located at the facility are owned by Paramount. The portions of the equipment that were not leased to Paramount have been dismantled and recoverable metals were sold for salvage. We had previously provided an impairment loss on the entire carrying value of the equipment that was dismantled.

We own a 7,000 square foot office building in Farmington, New Mexico. Approximately one half of the office building is used for our corporate offices. The remainder of the space is leased, or available for lease, to non-related tenants.

We owned two Caterpillar Model 3606 diesel powered electric generators, each capable of producing up to 1.5 megawatts, that were located at our Fredonia, Arizona facility. The generators were taken out of service in January 1999 because we were no longer able to generate electricity at competitive prices. In November 2006, the electric generation facility (including land, building, generators, associated equipment, and fuel inventory) was sold to a regional electric power distributor for net proceeds of \$269,820. As of the date of the sale, the book value of the facility was \$264,884 (net of accumulated depreciation of \$210,273 and prior impairments in value of \$440,935). The sale agreement required that the equipment be operational with closing contingent on completion of a 24-48 hour test run under full load conditions. Intermountain incurred \$57,505 during 2006 and \$52,241 during 2007 for improvement costs deemed necessary to insure the successful completion of the required test. The prior impairment in value reflected the amount by which the carrying value of the equipment (including land, building, fuel inventory and recent improvements) exceeded the estimated selling price of the facility.

Legal Proceedings

We are not aware of any pending or threatened legal proceedings to which Intermountain is a party. We are not aware of any pending or threatened legal proceedings to which any director, officer, affiliate of Intermountain, or any owner of more than 5% of Intermountain's common stock, is an adverse party to, or has a material interest adverse to, Intermountain.

Submission of Matters to a Vote of Security Holders

There have been no matters submitted to a vote of security holders during the past year through the solicitation of proxies or otherwise.

Market for Common Equity and Related Shareholder Matters

Market for Intermountain Common Stock

There is presently no public market for our common stock. Accordingly, we are unable to provide any historical information regarding sales prices for our common stock. No prediction can be made as to the effect, if any, that the sale of shares, or the availability of shares for sale, will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of the common stock in the public market could adversely affect prevailing market prices and our ability to raise equity capital in the future.

Shares Eligible for Future Sale

There are 1,155,609 shares of Intermountain common stock outstanding held by approximately 425 shareholders. Of the 1,155,609 shares outstanding, 442,643 shares are freely tradable in the public market without restriction, and 712,966 shares are subject to restrictions on future sales as set forth in Rule 144 of the Securities Act of 1933.

Of the 712,966 restricted shares, 704,056 shares are held by affiliates of Intermountain. In general, persons who are affiliates of Intermountain are entitled to sell, within any three month period, a number of shares that does not exceed the greater of the following:

- One percent of the then outstanding shares of common stock, or
- The average weekly reported trading volume of the common stock during the four calendar weeks immediately preceding the date on which notice of such sale is filed with the Securities and Exchange Commission, provided that manner of sale and notice requirements and requirements as to the availability of current public information concerning Intermountain are satisfied.

Mr. William N. Hagler and Mr. Rick L. Hurt may be considered affiliates of Intermountain. See "Security Ownership of Certain Beneficial Owners and Management".

Dividends

Intermountain has never paid any dividends on its common stock and while there are no restrictions on the payment of dividends, Intermountain does not anticipate paying any dividends in the foreseeable future.

Financial Statements of Intermountain

The audited financial statements of Intermountain as of February 28, 2007 and for each of the two years in the period ended February 28, 2007 are included beginning on page 16 of this report. Supplemental financial information relative to Intermountain's natural gas reserves and activities is included in Notes L and M to Intermountain's audited financial statements as of February 28, 2007 beginning on page 27 of this report.

Changes in and Disagreements with Accountants

There have been no disagreements between Intermountain and its accountants regarding financial disclosure issues.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition as of February 28, 2007 and results of operations for the years ended February 28, 2006 and February 28, 2007, should be read in conjunction with our financial statements, the notes related thereto, and the other financial data included elsewhere in this report.

Some of the statements contained in this report relate to future expectations, contain projections of results of operations or financial condition or include other forward-looking information. When used in this report, the words "estimate", "project", "anticipate", "intend", "believe", "hope", "may" and similar expressions, as well as "will", "shall" and other indications of future tense, are intended to identify forward-looking statements. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. You are cautioned not to place undue reliance on the forward-looking statements.

Liquidity and Capital Resources

The following table presents selected financial data regarding cash and working capital for each of the past two fiscal years:

	<u>Fiscal Year Ended</u>		
	February 28, <u>2006</u>	% <u>Change</u>	February 28, <u>2007</u>
Cash and cash equivalents (unrestricted)	\$ <u>851,102</u>	<u>181%</u>	\$ <u>2,391,302</u>
Working capital	\$ <u>996,963</u>	<u>127%</u>	\$ <u>2,266,766</u>

During the year ended February 28, 2007, we realized \$213,000 of cash flow from operating activities. The positive cash flow was primarily from profits realized from normal operations with no other significant operating sources or uses of cash. Significant non-operating sources and uses of cash during the year ended February 28, 2007 consisted of \$1,100,000 proceeds from the sale of our Kansas gas properties, and \$270,000 proceeds from the sale of the electric generation facility, offset by \$52,000 used for improvements to the electric generation equipment prior to its sale.

During the year ended February 28, 2006, we realized \$83,000 of cash flow from operating activities. The positive cash flow was primarily from profits realized from natural gas production and leasing of our asphalt products manufacturing and storage facility offset by \$276,000 cash used for asbestos abatement at our asphalt products manufacturing and storage facility. Significant non-operating sources and uses of cash during the year ended February 28, 2006 included a \$14,000 cash down payment from the sale of our Nebraska crude oil properties and \$37,000 proceeds from the surrender of a life insurance policy offset by \$58,000 used for improvements to the electric generation equipment and \$22,000 used for natural gas development costs in New Mexico.

Cash requirements as of February 28, 2007

While current cash balances are adequate to satisfy normal operating costs, our present forecasts indicate that future cash flows from current operations will not be sufficient to fully cover normal operating costs. It is our intent to acquire, through purchase or merger, additional interests in oil and/or natural gas producing properties to replace cash flows lost as the result of the sale of our Kansas natural gas properties. There are presently no formal plans or agreements in place and there is no assurance that we will enter into any formal agreements in the near future that would have a significant impact on Intermountain's financial condition.

Estimated cash requirements for the next twelve months include:

- \$24,000 per month for normal general and administrative costs, including costs to operate our Farmington office building
- \$800 per month estimated costs associated with the ownership and maintenance of Intermountain's asphalt products manufacturing and storage facility

In its efforts to develop additional sources of revenues, Intermountain may incur some project development costs. We are unable to predict the level of costs that may be incurred for such additional projects during the next year.

Expected sources of cash during the next twelve months consist of cash flows from operating activities estimated as follows:

- \$7,000 per month (net of production costs) from estimated natural gas operations in New Mexico based on results of operations during the year ended February 28, 2007 and projected natural gas prices over the next 12 months
- \$1,500 per month from Farmington office space rental
- \$7,000 per month dividend and interest income on investments and cash balances
- \$3,200 per month from the rental of our asphalt storage and manufacturing facility to Paramount, plus an estimated average \$8,300 per month in throughput fees based on annual asphalt product shipments of 10,000 tons during the coming paving season
- \$170,000 (net of estimated drilling and completion costs) from the drilling of a replacement well associated with the sale of our Kansas gas producing properties. Receipt of this amount is contingent on the successful replacement of a well that, prior to the closing of the Kansas sale, had experienced a casing leak that has subsequently been determined to not be repairable.

Estimates of future sources and uses of cash presented herein are based on our assumptions and expectations that our operations will continue at current levels without material interruption and that collection of accounts will occur under agreed terms. Actual results may be materially different.

Results of Operations

The following table summarizes the results of Intermountain's operations for each of the past two fiscal years. All percentage amounts were calculated using the underlying data.

	<u>Fiscal Year Ended</u>		
	February 28, <u>2006</u>	% Change	February 28, <u>2007</u>
Revenues	\$ 1,232,010	(31)%	\$ 850,764
Costs and Expenses (net of gains on sale of assets)	<u>1,225,187</u>	<u>(11,395)%</u>	<u>(171,004)</u>
Net income before taxes	6,823	14,875%	1,021,768
Income taxes	<u>212</u>	<u>88,263%</u>	<u>187,330</u>
Net income	<u>\$ 6,611</u>	<u>12,522%</u>	<u>\$ 834,438</u>

Revenues

The following table presents a summary of our revenues for the periods indicated. All percentage amounts were calculated using the underlying data.

	<u>Fiscal Year Ended</u>		
	February 28, <u>2006</u>	% Change	February 28, <u>2007</u>
Oil and gas production	\$ 983,637	(32)%	\$ 670,621
Asphalt equipment rental and fees	219,078	(30)%	154,325
Real estate rental	23,545	(3)%	22,818
Other revenues	<u>5,750</u>	<u>(48)%</u>	<u>3,000</u>
Total Revenues	<u>\$ 1,232,010</u>	<u>(31)%</u>	<u>\$ 850,764</u>

Changes in individual components of revenues are discussed below:

Oil and natural gas revenues

The following table contains oil and gas production volume, net to our interest, and average sales prices received for the periods indicated:

	<u>Fiscal Year Ended</u>		
	February 28, <u>2006</u>	% Change	February 28, <u>2007</u>
Natural gas produced, net (Mcf)	<u>185,856</u>	<u>(12)%</u>	<u>164,164</u>
Average selling price (\$/Mcf)	<u>\$5.15</u>	<u>(21)%</u>	<u>\$4.09</u>
Crude oil produced, net (Bbls)	<u>548</u>	<u>(100+)%</u>	<u>0</u>
Average selling price (\$/Bbl)	<u>\$49.37</u>	<u>(100+)%</u>	<u>\$N/A</u>

The decrease in oil and natural gas revenues for the year ended February 28, 2007 as compared to the year ended February 28, 2006 consisted of a \$251,000 (34%) decrease in Kansas natural gas revenues, a \$35,000 (21%) decrease in New Mexico natural gas revenues, along with a \$27,000 (100%) decrease in Nebraska crude oil revenues. The decrease in Kansas natural gas revenues consisted of a \$1.15/Mcf (24%) decrease in selling price along with a 19,000 Mcf (12%) decrease in production. The Kansas gas properties were sold on February 28, 2007. The decrease in New Mexico natural gas revenues consisted of a \$0.62/Mcf (8%) decrease in selling price along with a 2,700 MCF (10%) decrease in production. The Nebraska oil properties were sold in November 2005. Due to the complexity of the economic factors affecting energy prices, we are unable to predict the direction or magnitude of future price changes. It is expected that our natural gas production in New Mexico will decline slightly over the next twelve months consistent with observed decline rates.

The increase in oil and natural gas revenues for the year ended February 28, 2006 as compared to the year ended February 28, 2005 consisted of a \$170,000 (30%) increase in Kansas natural gas revenues and a \$143,000 (217%) increase in New Mexico natural gas revenues offset by a \$2,000 (6%) decrease in Nebraska crude oil revenues. The increase in Kansas natural gas revenues consisted of a \$1.27/Mcf (37%) increase in selling price offset by a \$9,000 Mcf (5%) decrease in production. The increase in New Mexico natural gas revenues consisted of a \$0.85/Mcf (13%) increase in selling price and an 18,000 Mcf (180%) increase in production. The New Mexico

natural gas properties were purchased in August 2004 and there were only 5 months of production included in results of operations for the year ended February 28, 2005. The decrease in Nebraska crude oil revenues consisted of a 240 Bbl (30%) decrease in production offset by a \$12.80/Bbl (35%) increase in selling price.

Leasing of asphalt products manufacturing and storage facilities

The agreement with Paramount provides for Intermountain to receive \$3,200 per month in basic rent for Intermountain's asphalt storage and manufacturing facility. In addition, Intermountain receives a basic \$5.50 per ton fee for all asphalt products shipped from the facility plus a supplemental fee of \$4.50 per ton, applied retroactively to all tons shipped during the year, in the event that annual shipments from the facility exceed 10,000 tons.

The decrease in asphalt equipment rental fees during the year ended February 28, 2007 as compared to the year ended February 28, 2006 was attributed to an expected decrease in product shipments, specifically paving grade asphalt products, from the facility. Basic equipment rental revenues remained the same during the two periods. Fees received for products shipped decreased by \$65,000 (30%). The current extended term of the agreement with Paramount will expire on December 31, 2007. There is no assurance that the current agreement will be continued beyond its current term. It is anticipated that revenues associated with this activity will remain relatively flat over the next year.

The increase in asphalt equipment rental fees during the year ended February 28, 2006 as compared to the year ended February 28, 2005 was attributed to a slight increase in product shipments from the facility. Basic equipment rental revenues remained the same during the two periods. Fees received for products shipped increased by \$30,000 (20%).

Real estate rental

Real estate rental revenues declined by an average \$61 per month for the year ended February 28, 2007 as compared to the year ended February 28, 2006 due to a slight decrease in average occupancy. As of February 28, 2007, there were four vacant office spaces available for rent in our Farmington office building. Rental income is not expected to change significantly over the coming year.

Real estate rental revenues declined by an average \$85 per month for the year ended February 28, 2006 as compared to the year ended February 28, 2005 due to a slight decrease in average occupancy.

Costs and Expenses

The following table presents a summary of our costs and expenses (including gains and losses on sales of assets and other miscellaneous charges and credits) for the last two fiscal years:

	<u>Fiscal Year Ended</u>	
	February 28, <u>2006</u>	February 28, <u>2007</u>
		<u>% Change</u>
Cost of sales	\$ 522,284	(12)%
General and administrative costs	287,910	(0)%
Depletion, depreciation and amortization	50,513	(11)%
Asbestos abatement costs	276,212	(100)%
Gain on sale of refinery land	-	(100+)%
Salvage of refinery equipment	(29,505)	62%
Gain on sale of electric generation equipment	-	(100+)%
Loss on impairment of electric generation equipment	120,430	(100)%
(Gain)/loss on sale of oil producing properties	7,888	(11,739+)%
Accretion of discount on asset retirement obligations	2,506	(15)%
Loss on settlement of asset retirement obligations	-	100+%
Interest and investment (income) expense, net	<u>(13,051)</u>	<u>(131)%</u>
Total costs and expenses	<u>\$ 1,225,187</u>	<u>(114)%</u>

Changes in individual components of costs and expenses are discussed below.

Cost of sales

Cost of sales includes costs incurred in the production of oil and natural gas, and costs of maintaining the asphalt facility.

The decrease in cost of sales during the year ended February 28, 2007 compared to the year ended February 28, 2006 consisted of an \$82,000 (16%) decrease in oil and natural gas production costs offset by a \$17,000 (150%) increase in asphalt facility maintenance costs. The decrease in oil and natural gas production costs consisted of a \$36,000 (10%) decrease in Kansas natural gas production costs, a \$32,000 decrease in New Mexico natural gas production costs, and a \$14,000 (100%) decrease in Nebraska crude oil production costs. The decrease in Kansas costs was mainly attributed to a \$37,000 (16%) decrease in well equipment repair costs. The decrease in New Mexico costs was attributed to decreases in most cost categories including a \$6,000 (27%) decrease in gathering fees, a \$4,000 (22%) decrease in severance taxes, an \$8,000 (77%) decrease in water disposal, and an \$8,000 (31%) decrease in well maintenance supplies and repairs. As the Nebraska properties were sold during the prior year, there were no Nebraska costs during the year ended February 28, 2007. Well pump, production tubing, surface equipment, and well casing failures occur randomly and the timing and cost of repairs cannot be accurately predicted. In addition, future repair costs may be material and become a critical factor in assessing the economic viability of individual wells. The increase in costs associated with the asphalt facility was primarily due to costs associated with cleanup and disposal of debris remaining upon completion of metal salvage activities. We may incur some additional debris removal costs in the future, however, such additional costs are not expected to be significant.

The increase in cost of sales during the year ended February 28, 2006 compared to the year ended February 28, 2005 consisted of a \$218,000 (74%) increase in oil and natural gas production costs offset by a \$29,000 (72%) decrease in asphalt facility maintenance costs (excluding asbestos abatement costs discussed later in this report). The increase in oil and natural gas production costs consisted of a \$170,000 (72%) increase in Kansas natural gas production costs and a \$67,000 (143%) increase in New Mexico natural gas production costs offset by a \$9,000 (40%) decrease in Nebraska crude oil production costs. The significant increase in Kansas natural gas production costs was primarily attributed to a \$152,000 (181%) increase in well equipment repairs mainly associated with the repair (or attempted repair) of three casing leaks experienced during the period. The New Mexico natural gas properties were acquired in August 2004 and included 6 months of operating costs during the year ended February 28, 2005 compared to 12 months for the year ended February 28, 2006. The decrease in Nebraska crude oil production costs was primarily the result of the sale of the properties on November 1, 2005. The decrease in operating costs associated with the asphalt products manufacturing and storage facility was primarily attributed to a \$29,000 (83%) decrease in environmental permitting and compliance costs (excluding asbestos abatement costs discussed later in this report). The decrease in environmental costs was primarily associated with the closure of the process water collection and evaporation systems, the majority of which were incurred during the year ended February 28, 2005.

General and administrative expenses

General and administrative expenses include the cost of our officers and administrative employees, costs incurred to operate and maintain our Farmington office building, and all items of general overhead required to manage and administer our corporate affairs.

General and administrative expenses during the year ended February 28, 2007 compared to the year ended February 28, 2006 were relatively unchanged and there were no significant changes in individual cost categories. Normal ongoing general and administrative costs are expected to remain relatively unchanged over the next twelve months.

The increase in general and administrative expenses during the year ended February 28, 2006 compared to the year ended February 28, 2005 primarily consisted of a \$7,000 increase in group insurance costs with a net \$3,000 increase in all other general and administrative cost categories.

Depletion, depreciation and amortization

The decrease in depletion and depreciation for the year ended February 28, 2007 compared to the year ended February 28, 2006 consisted solely of a \$5,500 (11%) decrease in depletion on oil and natural gas producing properties. There was no change in depreciation expense associated with the asphalt facility or the Farmington office building. The decrease in depletion consisted of a \$2,000 (12%) decrease in Kansas depletion, a \$1,300 (4%) decrease in New Mexico depletion, and the elimination of \$2,200 of Nebraska depletion.

The decrease in depletion and depreciation for the year ended February 28, 2006 compared to the year ended February 28, 2005 consisted of a \$25,000 (98%) decrease in depreciation on asphalt facility assets offset by an \$18,000 (56%) increase in depletion on oil and natural gas production. The asphalt facility assets were nearly fully depreciated as of February 28, 2005. The increase in depletion on oil and natural gas properties consisted of a \$20,000 (181%) increase in New Mexico depletion offset by a \$1,000 (5%) decrease in Kansas depletion and a \$1,000 (30%) decrease in Nebraska depletion.

Asbestos Abatement Costs and Salvage of Refinery Equipment:

In April, 2005, we began the process of dismantling the portions of our refining equipment at our Fredonia facility that were no longer used for ongoing operations and were not expected to be used in the future. As part of the dismantling process, the presence of asbestos containing materials was identified in portions of the equipment being dismantled. Management engaged a consultant to evaluate the extent of asbestos present on the site and to prepare a plan for the abatement and removal of the material. During the year ended February 28, 2006, we incurred \$276,000 in consulting and abatement costs associated with the removal of the material. Management believes that abatement and disposal of asbestos containing materials at the facility had been substantially completed as of February 28, 2006. We recognized \$29,000 during 2006 and \$11,000 during 2007, from the salvage of metals and used equipment removed from the facility.

Loss on impairment, and gain on sale, of electric generation facility:

During the year ended February 28, 2006, we recognized an additional \$120,000 impairment on our electric generation equipment available for sale. The amount of the impairment was equal to the excess of the carrying value of the equipment over the estimated proceeds from the future sale of the equipment less estimated additional improvement costs expected to be incurred in completing the sale. As discussed earlier in this report, during the year ended February 28, 2006, we entered into a memorandum of understanding to sell the electric generation equipment. The sale of the electric generation facility was completed during November 2006. The \$269,800 proceeds from the sale exceeded the previously impaired \$264,900 carrying value of the facility, which resulted a recognized gain on the sale of \$4,900.

There were no significant changes in the valuation of our other assets that, in the opinion of management, would require the recognition of any additional impairment reserves as of February 28, 2007.

(Gain) loss on sale of oil and gas producing properties:

On February 28, 2007, we sold all of our interests in our Kansas natural gas producing properties. The \$1,124,000 proceeds from the sale (including cash of \$1,100,000 and release from asset retirement obligations of \$24,000) exceeded the \$206,000 net carrying value of the properties, which resulted in a recognized gain on the sale of \$918,000.

On November 1, 2005, we sold all of our interests in our Nebraska crude oil producing properties. The \$55,400 net carrying value of the properties exceeded the \$47,500 proceeds (including cash of \$14,200, a promissory note of \$24,300, and release from asset retirement obligations of \$9,000), which resulted in a recognized loss on the sale of \$7,900.

Accretion of discount and loss on settlement of asset retirement obligations:

Accretion of discount on asset retirement obligations consists of changes in the present value of future asset retirement obligations with the passage of time. Gains or losses on the settlement of asset retirement obligations arise from the difference between actual asset retirement costs incurred and the present value, at the time of retirement, of the previously estimated retirement cost.

There were no significant changes in the accretion of discount on asset retirement obligations during the year ended February 28, 2007 compared to the year ended February 28, 2006. There were two wells plugged and abandoned during the year ended February 28, 2007, which resulted in a total loss on settlement of asset retirement obligations of \$7,600.

There were no significant changes in the accretion of discount on asset retirement obligations during the year ended February 28, 2006 compared to the year ended February 28, 2005. There were no wells plugged and abandoned during the year ended February 28, 2006, accordingly, there were no gains or losses on settlement of asset retirement obligations during the year ended February 28, 2006.

Interest and investment (income) expense, net

Interest and investment income includes earnings on cash balances and net earnings on investments, less interest expense incurred.

Net interest and investment income during the year ended February 28, 2007 consisted of \$26,700 earned on cash balances and \$6,600 of dividends and royalties on investments, less \$3,100 in depletion on investments in oil and natural gas royalty trusts. Interest income is expected to increase in the near future relative to the increase in cash balances as of the end of 2007. Investment income is expected to remain relatively unchanged over the next twelve months. We did not incur any interest expense during the year ended February 28, 2007.

Net interest and investment income during the year ended February 28, 2006 consisted of \$13,000 interest earned on cash balances and \$7,200 of dividends and royalties on investments, less \$6,700 in depletion on investments in oil and natural gas royalty trusts. We did not incur any interest expense during the year ended February 28, 2006.

Changes in Accounting Principles

During the year ended February 28, 2007, the Financial Accounting Standards Board did not issue any new statements that required any changes in our accounting principles.

Critical Accounting Estimates

Certain accounting estimates are important to the presentation of our financial condition and results of operations and require management's subjective or complex judgments. Such estimates are subject to change based on future conditions and events that may have a material effect on our financial condition and results of operations.

Oil and Natural Gas Reserve Estimates

Estimating oil and natural gas reserves is a subjective process that is dependent on the quality of available data and on interpretation and judgment concerning such data. Reserve estimates are subject to change over time as additional information becomes available and as a result of changes in market prices and production costs. Our estimates of reserves can be adversely affected by future changes including material decreases in market prices, increases in operating costs, and higher than expected declines in production quantities.

As capitalized costs and estimated future retirement costs associated with our oil and gas properties are depleted on the unit-of-production basis, decreases in estimated oil and gas reserves would increase depletion expense resulting in a decrease in oil and gas operating income.

We have recorded estimates of future asset retirement obligations associated with the eventual plugging and abandonment of our oil and natural gas wells. The fair value of future plugging and abandonment costs is estimated by escalating current plugging and abandonment costs (at an assumed inflation rate over the expected economic life of an individual well) discounted at our credit-adjusted risk-free interest rate. The fair value of the future plugging and abandonment costs is capitalized and depreciated using the unit-of-production method. The discount on the asset retirement obligation is accreted over time until the obligation is settled or the asset is sold. The expected economic life of an individual well is determined from the estimate of reserve quantities at the time the well was acquired. Future increases in well plugging and abandonment costs in excess of assumed inflation rates and premature or earlier than expected well retirement could result in the recognition of a loss on the settlement of future well plugging and abandonment obligations.

Impairment of Long-Lived Assets

Events or changes in circumstances periodically require that long-lived assets (including oil and natural gas properties) be evaluated to determine if the carrying amount of the asset may not be recoverable out of estimated future cash flows from the asset. Such periodic evaluations are subjective and require the use of estimates of future cash flows that are subject to change. We had previously recognized impairments in value on the portions of our crude oil refining facility that were dismantled, and on our electric generation equipment that was sold. There are currently no additional impairments recognized with respect to our existing long-term assets.

Accounting for Income Taxes

Deferred tax assets and liabilities arise from temporary differences from the differing treatment of items for tax and accounting purposes. While we have estimated that we have net deferred tax assets arising from, among other items, the carry forward of prior capital, we have provided a valuation allowance equal to the amount of the estimated net deferred tax assets because we are uncertain that future results of operations will be adequate to recover such deferred tax assets.

Inflation, Deflation and Changing Prices

The results of operations and capital expenditures will continue to be affected by inflation, deflation and changing prices. A decline in the price of natural gas could have an adverse effect on Intermountain's operations. Management is unable to determine the full impact of inflation, deflation and changing prices on the results of operations or working capital.

Directors and Executive Officers

<u>Name and Address</u>	<u>Age</u>	<u>Position</u>	<u>Held Since</u>
William N. Hagler 4421 Bella Vista Cr. Farmington, New Mexico 87401	74	President and Director	1984
Rick L. Hurt 5701 Tee Dr. Farmington, New Mexico 87402	54	Controller, Secretary, Treasurer and Director	1985

Background information concerning the Officers and Directors is as follows:

William N. Hagler has been the President and a Director of Intermountain since 1984. Mr. Hagler received a B.S. degree in Industrial Engineering from North Carolina State University in 1955. From 1955 to 1968, he was employed by Esso Standard Oil, Cities Service Oil Co. and Riffe Petroleum Co. in various phases of the petroleum refining and marketing industry. In July 1968, he became assistant to the president and later vice president of Plateau, Inc., Farmington, New Mexico, a regional refining and marketing firm. His responsibilities have included refinery management, marketing, corporate development, economics and planning, crude oil supply, negotiation and administration of processing arrangements, labor relations, coordination of refinery acquisition and expansion programs, and relations with state and federal regulatory bodies. In 1979, Mr. Hagler organized Unico, Inc., the former parent company of Intermountain, and served as its President and as a Director from its inception until June 1998 when he resigned both positions. In April 1993, Mr. Hagler accepted an appointment as a Director of Saba Petroleum and from October 1998 until December 1998 also served as its Management Committee Chairman. He resigned from all Saba Petroleum positions in March 1999. During 1999, Mr. Hagler accepted an appointment as Chairman of the Board of Directors of Petrominerals Corporation. Mr. Hagler resigned his position with Petrominerals during 2002. Mr. Hagler is also a member of the Farmington, New Mexico Public Utilities Commission.

Rick L. Hurt has been the Secretary, Treasurer and a Director of Intermountain since 1985. Mr. Hurt received a BBA degree in Accounting from the University of New Mexico in 1979. From 1979 to 1982, he was employed as a staff accountant and later as a senior accountant by the accounting firm of Fox & Company in its Albuquerque, New Mexico offices. From 1982 until March 1985, he was employed as chief accountant for the law firm of Davis and Davis in Austin, Texas. Mr. Hurt is certified as a public accountant in the state of New Mexico. Mr. Hurt joined Unico, Inc., the former parent company of Intermountain, as Assistant Controller in March 1985, and became its Controller, Secretary, Treasurer, and a Director in May 1985. Mr. Hurt resigned from these Unico positions in June 1998.

Both Mr. Hagler and Mr. Hurt may be deemed a parent or promoter of Intermountain as those terms are defined in the rules and regulations promulgated under the Securities Act of 1933.

No family relationship exists between any officer or director of Intermountain and no officer or director of Intermountain has been subject, during the preceding 5 years, to any of the events set forth in paragraph (d) of Item 401 of Regulation S-B.

Compensation of Directors and Executive Officers

The following table will inform you about the compensation earned by all of our executive officers for services rendered during the last three fiscal years:

<u>Name and Principal Positions</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>	Long-Term Compensation Awards -	<u>All Other Compensation</u>
					<u>Restricted Stock Awards</u>	
		(\$)	(\$)	(\$)	(#)	(\$)
William N. Hagler Chief Executive Officer and Director	2007	\$101,164	\$ 0	\$ 0	0	\$3,035 (1)
	2006	\$101,164	\$ 0	\$ 0	0	\$3,035 (1)
	2005	\$101,164	\$ 0	\$ 0	0	\$2,500 (1)
Rick L. Hurt Secretary, Treasurer, and Director	2007	\$ 54,889	\$ 0	\$ 0	0	\$1,647 (1)
	2006	\$ 54,889	\$ 0	\$ 0	0	\$1,647 (1)
	2005	\$ 54,889	\$ 0	\$ 0	0	\$1,647 (1)

All officers and directors	2007	\$156,053	\$ 0	\$ 0	0	\$4,682 (1)
as a group (2 persons)	2006	\$156,053	\$ 0	\$ 0	0	\$4,682 (1)
	2005	\$156,053	\$ 0	\$ 0	0	\$4,147 (1)

(1) Consists of SIMPLE IRA employer matching contributions amounting to the lesser of employee elective deferrals or 3% of salary.

Our employees, including officers, may receive such bonuses and salary increases as the Board of Directors, in its sole discretion, may award from time to time. We have not increased officers salaries since April 1997, at which time, a 2.5% cost of living adjustment was awarded.

We provide health insurance benefits to the officers and all other full time employees.

We maintain a SIMPLE IRA plan for our officers and all of our full time employees. Participation in the plan is voluntary and employee contributions are limited by regulations established annually by the Internal Revenue Service. We are required to match employee contributions up to the lesser of 3% of salary or the amount of employee contributions.

No director has been compensated for attending meetings of the Board of Directors. However, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular and special meeting of the Board of Directors.

We do not currently maintain director and officer liability insurance.

We have no employment contracts with any of our employees. All employees can terminate employment at will.

Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Owners

The following table lists the only persons known to us who beneficially own five percent (5%) or more of the issued and outstanding Intermountain common stock, its only voting security:

<u>Title of Class</u>	<u>Name and address of Beneficial owner</u>	<u>Amount and nature of Beneficial ownership</u>	<u>Percent of Class</u>
Common stock, no par value	William N. Hagler 4421 Bella Vista Cr. Farmington, NM 87401	693,808 shares of record and beneficially	60.04%

Security Ownership of Management

The following table lists the ownership of Intermountain common stock by the management:

<u>Title of Class</u>	<u>Name and address of Beneficial owner</u>	<u>Amount and nature of Beneficial ownership</u>	<u>Percent of Class</u>
Common stock, no par value	William N. Hagler 4421 Bella Vista Cr. Farmington, NM 87401	693,808 shares of record and beneficially	60.04%
Common stock, no par value	Rick L. Hurt 5701 Tee Dr. Farmington, NM 87402	6,904 shares of record and beneficially	0.60%
Common stock, no par value	All officers and directors (2 people) as a group	700,712 shares of record and beneficially	60.64%

Code of Ethics

On March 15, 2006, our Board of Directors adopted a written Code of Ethics designed to deter wrongdoing and promote honest and ethical conduct, full, fair and accurate disclosure, compliance with laws, prompt internal

reporting and accountability to adherence to the Code of Ethics. This Code of Ethics has been filed with the Securities and Exchange Commission as an Exhibit to this Form 10-KSB for the year ended February 28, 2006. Individuals may obtain a written copy of the Code of Ethics by submitting a written request to Intermountain's administrative offices.

Compliance with Section 16(a) of the Exchange Act

In accordance with Section 16(a) of the Securities Exchange Act of 1934, any person who, at any time during the last fiscal year, was an officer, director, or beneficial owner of more than 10% of any securities of an issuer that have been registered pursuant to Section 12 of the Exchange Act, is required to file periodic reports with the Securities and Exchange Commission and provide copies of the reports to the registered issuer. In accordance with item 405 of Regulation S-B, we are required to report information regarding untimely or delinquent filings by such individuals. We are not aware of any untimely or delinquent filing of periodic reports of individuals during the year ended February 28, 2007.

Certain Relationships and Related Party Transactions

During the last two fiscal years, there have been no transactions, or series of transactions, between Intermountain and other related parties that are of a nature that are required to be disclosed in this report. However, information relative to this topic may be found in Note H to Intermountain's financial statements on page 25 of this report.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures:

Disclosure controls and procedures are designed and implemented to ensure that all material information relating to a company is made known to its chief operating officer, chief financial officer, and such other persons who are responsible for preparing and filing periodic reports with the Securities and Exchange Commission. William N. Hagler and Rick L. Hurt, representing all of the officers and directors of Intermountain, have evaluated our disclosure controls and procedures and concluded that such controls were effective as of February 28, 2007.

Changes in Internal Controls:

There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of Management's last evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Principal Accountant Fees and Services

Information regarding services and the related fees billed by our principal accountants during the periods indicated is as follows:

	<u>For the years ended</u>	
	<u>February 28,</u> <u>2006</u>	<u>February 28,</u> <u>2007</u>
Audit fees: Includes audit and review services applicable to Intermountain's annual financial statements, Forms 10-KSB and 10-QSB, and other filings made with the Securities and Exchange Commission.	\$ 23,927	\$ 24,110
Audit related fees	0	0
Tax fees	0	0
All other fees	0	0
Total fees billed by principal accountants	<u>\$ 23,927</u>	<u>\$ 24,110</u>

We, due to our small size, do not have an audit committee. All functions and procedures that would traditionally be performed by an audit committee are performed by our board of directors. Our board of directors pre-approves all engagements for services performed by our principal accountants. Generally, we do not engage our principal accountants for services other than those related to auditing and reviewing of financial statements included in statutory filings with the Securities and Exchange Commission.

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Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Intermountain Refining Co., Inc.

We have audited the accompanying balance sheet of Intermountain Refining Co., Inc. as of February 28, 2007, and the related statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years ended February 28, 2006 and February 28, 2007. These financial statements are the responsibility of Intermountain's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Intermountain Refining Co., Inc. as of February 28, 2007, and the results of operations and cash flows for the years ended February 28, 2006 and February 28, 2007, in conformity with accounting principles generally accepted in the United States of America.

Richey, May & Co., LLP
Englewood, Colorado
May 21, 2007

Intermountain Refining Co., Inc.
Balance Sheet
February 28, 2007

Assets

Current Assets

Cash and cash equivalents - Note A	\$ 2,391,302
Accounts receivable - Note B	98,414
Notes receivable – Notes F and L	4,806
Accrued interest receivable	22
Prepaid expenses	<u>845</u>
Total Current Assets	2,495,389

Property, Plant and Equipment, net

Land, buildings and improvements	354,409
Equipment	45,990
Asphalt equipment – Note A	581,919
Oil and gas properties, (successful efforts method) - Notes L, M and N	<u>439,974</u>
	1,422,292
Less accumulated depletion and depreciation	<u>(1,025,990)</u>
	396,302

Other Assets

Electric generation equipment available for sale– Note O	-
Available-for-sale investments - Note E	124,716
Other assets - Note C	<u>275</u>
	<u>124,991</u>
Total Assets	<u>\$ 3,016,682</u>

Liabilities and Stockholders' Equity

Current Liabilities

Accounts payable	\$ 38,900
Taxes other than income taxes	2,658
Income taxes payable - Note G	<u>187,065</u>
Total Current Liabilities	228,623

Deferred Taxes - Note G	18,527
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Asset Retirement Obligations - Notes A and N	6,770
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Commitments and Contingencies - Note I	-
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Stockholders' Equity

Common stock, no par value, authorized 10,000,000 shares, issued and outstanding 1,155,609 shares	1,455,314
Preferred stock, \$0.01 par value, authorized 5,000,000 shares, issued and outstanding 0 shares	-
Retained earnings	1,273,042
Accumulated other comprehensive income - Note E	<u>34,406</u>
	<u>2,762,762</u>
Total Liabilities and Stockholders' Equity	<u>\$ 3,016,682</u>

The accompanying notes are an integral part of these financial statements.

Intermountain Refining Co., Inc.
Statements of Income and Comprehensive Income

	<u>For the years ended</u>	
	February 28, <u>2006</u>	February 28, <u>2007</u>
Revenues		
Oil and natural gas production revenues	\$ 983,637	\$ 670,621
Asphalt equipment rental and throughput fees - Note D	219,078	154,325
Real estate rental income	23,545	22,818
Other revenues - Note H	<u>5,750</u>	<u>3,000</u>
	1,232,010	850,764
Operating Expenses, Investment Income and Other Gains and Losses		
Cost of sales, exclusive of depletion, depreciation and amortization shown below	522,284	457,557
General and administrative	287,910	287,817
Depletion, depreciation and amortization	50,513	45,003
Asbestos abatement costs - Note I	276,212	-
Gain on sale of refinery land - Note H	-	(6,768)
Salvage of refinery equipment - Note I	(29,505)	(11,141)
Gain on sale of electric generation equipment - Note O	-	(4,936)
Loss on impairment of electric generation equipment - Note O	120,430	-
(Gain)/Loss on sales of oil and gas producing properties - Note L	7,888	(918,085)
Accretion of discount on asset retirement obligations - Note N	2,506	2,131
Loss on settlement of asset retirement obligations - Note N	-	7,615
Interest and investment expense/(income), net	<u>(13,051)</u>	<u>(30,197)</u>
	<u>1,225,187</u>	<u>(171,004)</u>
Income From Operations Before Income Taxes	6,823	1,021,768
Provision (benefit) for income taxes - Note G		
Current	212	187,330
Deferred	<u>-</u>	<u>-</u>
	<u>212</u>	<u>187,330</u>
Net Income	6,611	834,438
Other Comprehensive Income (Loss), net of tax:		
Unrealized holding gain/(loss) on investments available for sale (net of deferred income tax expense/(benefit) of \$6,350 in 2006 and \$(1,211) in 2007)- Notes E and G	<u>11,794</u>	<u>(2,251)</u>
Comprehensive Income	\$ 18,405	\$ 832,187
Weighted Average Number of Shares Outstanding	1,155,609	1,155,609
Basic and Fully Diluted Earnings Per Share		
Net income	\$ 0.01	\$ 0.72

The accompanying notes are an integral part of these financial statements.

Intermountain Refining Co., Inc.

Statements of Cash Flows

	<u>For the years ended</u>	
	February 28, <u>2006</u>	February 28, <u>2007</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Net income	\$ 6,611	\$ 834,438
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	50,513	45,003
Accretion of discount on asset retirement obligations	2,506	2,131
Depletion on investments in oil and gas royalty trusts	6,653	3,065
Loss on settlement of asset retirement obligations	-	7,615
Gain on sale of refinery land	-	(6,768)
Gain on sale of electric generation equipment	-	(4,936)
Loss on impairment of electric generation equipment	120,430	-
(Gain) loss on sale of oil and gas producing properties	7,888	(918,085)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(104,473)	68,084
(Increase) decrease in accrued interest receivable	(434)	412
Decrease in prepaid expenses	53	232
Decrease in accounts payable and accrued expenses	(6,508)	(4,682)
Increase (decrease) in income taxes accrued	<u>(204)</u>	<u>186,839</u>
Net Cash Flow Provided by Operating Activities	<u>83,035</u>	<u>213,348</u>
Cash Flows From Investing Activities		
Purchases of available for sale investments	(6,802)	(6,066)
Proceeds from sale of electric generation equipment	-	269,820
Purchase of improvements to electric generation equipment	(57,505)	(52,241)
Proceeds from sale land	-	7,450
Collection of notes receivable	-	19,513
Increase in cash value of life insurance policies	(301)	-
Proceeds from surrender of life insurance policy	37,089	-
Oil and gas development costs	(21,770)	-
Proceeds from the sale of oil and gas producing properties	14,181	1,100,000
Settlement of asset retirement obligations	<u>-</u>	<u>(11,624)</u>
Net Cash Flow Provided (Used) by Investing Activities	<u>(35,108)</u>	<u>1,326,852</u>
Increase (decrease) in Cash and Cash Equivalents	47,927	1,540,200
Cash and Cash Equivalents at Beginning of Year	<u>803,175</u>	<u>851,102</u>
Cash and Cash Equivalents at End of Year	<u>\$ 851,102</u>	<u>\$ 2,391,302</u>

Supplemental Cash Flow Disclosures

Intermountain paid interest of \$0 in 2006 and \$0 in 2007.

Intermountain paid income taxes of \$430 and received a refund of income taxes of \$14 in 2006. Intermountain paid income taxes of \$491 in 2007.

Supplemental Schedule of Noncash Investing Activities:

During 2006, Intermountain's available for sale investments increased in value by \$11,794, net of deferred taxes of \$6,350.

During 2007, Intermountain's available for sale investments decrease in value by \$2,251, net of deferred tax benefits of \$1,211.

During 2006, Intermountain recognized estimated asset retirement obligations of \$175 and increased its investment in oil and gas producing properties by the same amount in conjunction with the drilling of one development well in New Mexico.

During 2006, Intermountain sold its Nebraska oil producing properties with a net book value of \$55,364 in exchange for \$14,181 in cash, a note receivable \$24,319, and release of estimated future asset retirement obligations of \$8,976.

During 2006, Intermountain reclassified inventory valued at \$2,390 and land and building with a net book value of \$3,178, net of accumulated depreciation of \$26,149, to electric generation equipment available for sale.

The accompanying notes are an integral part of these financial statements.

Intermountain Refining Co., Inc.
Statements of Changes in Stockholders' Equity

	<u>Common Stock Shares</u>	<u>Stock Value</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
Balance, February 28, 2005	1,155,609	\$1,455,314	\$ 431,993	\$ 24,863	\$ 1,912,170
Holding gain on available for sale investments - Notes E and G	-	-	-	11,794	11,794
Net income	<u>-</u>	<u>-</u>	<u>6,611</u>	<u>-</u>	<u>6,611</u>
Balance, February 28, 2006	1,155,609	1,455,314	438,604	36,657	1,930,575
Holding loss on available for sale investments - Notes E and G	-	-	-	(2,251)	(2,251)
Net income	<u>-</u>	<u>-</u>	<u>834,438</u>	<u>-</u>	<u>834,438</u>
Balance, February 28, 2007	<u>1,155,609</u>	<u>\$ 1,455,314</u>	<u>\$ 1,273,042</u>	<u>\$ 34,406</u>	<u>\$ 2,762,762</u>

The accompanying notes are an integral part of these financial statements.

Intermountain Refining Co., Inc.
Notes to Financial Statements
February 28, 2007

Note A - Summary of Significant Accounting Policies

Business Activity: Intermountain owns an approximate 12.48% working interest (9.98% net revenue interest) in 15 natural gas producing wells (operated by others) in San Juan County, New Mexico. Intermountain owned a 98.4% working interest (81.5% net revenue interest) in 19 natural gas producing wells located in Southwestern Kansas and was the operator of the properties. The Kansas properties were sold effective as of February 28, 2007. As of November 1, 2005, Intermountain sold its entire 90% working interest (72% net revenue interest) in oil producing properties located in Kimball County, Nebraska.

Intermountain owns an asphalt products manufacturing and storage facility located in Fredonia Arizona that has been leased to Paramount Petroleum Corporation. Intermountain receives fixed monthly lease payments and variable throughput fees for products shipped from the facility.

Intermountain owns an office building in Farmington, New Mexico that it uses for its corporate offices and leases unused space to others.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash in depository institutions, and interest bearing over-night cash investments. Intermountain maintains its cash balances in a national financial institution. The balances maintained are in excess of the maximum insurance provided by the Federal Deposit Insurance Corporation. Intermountain does not believe that it has any significant credit risk for amounts in excess of the federally insured amounts.

Property, Plant and Equipment: Property, plant and equipment is stated at cost. Depreciation of property and equipment is provided on the straight-line method over the following useful lives:

Buildings	15-20
Equipment	3-20
Asphalt manufacturing and storage equipment	5-20

Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on disposition of property are included in results of operations.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. A review for impairment includes comparing the current carrying amount of an asset to the estimated future cash flows expected to result from the use of the asset and its eventual disposition. If such future estimated cash flows are not sufficient to recover the carrying cost, then an impairment loss is recognized. When required, impairment losses on assets to be held are recognized based on the excess of the asset's carrying amount over the fair value of the asset.

Asset Retirement Obligations: Asset retirement obligations, such as future plugging and abandonment of oil and gas wells, are recognized based on the present value of the future retirement costs as of the date an asset is acquired and capitalized as part of the cost of the asset. The capitalized cost is amortized to expense and the discount on the future obligation is amortized to accretion expense over the life of the asset. Actual costs associated with asset retirement activities are charged against the asset retirement obligation. Gains or losses on the ultimate settlement of asset retirement obligations are charged to results of operations in the year of retirement.

Oil and Gas Properties: The successful efforts method of accounting for the acquisition, exploration, development and production of oil and gas properties is utilized. Costs of acquiring undeveloped oil and gas leases are capitalized. All development costs of proved properties are capitalized as incurred and all exploration costs are expensed. The capitalized costs of oil and gas wells and related equipment are amortized by the units-of-production method based on the estimated proved oil and gas reserves.

Revenue Recognition: Oil and natural gas production revenues are recognized upon delivery. Real estate rental income, asphalt equipment rental fees, and other revenues are recognized on a monthly basis as services are provided. Asphalt product throughput fees are recognized on a monthly basis as asphalt products are shipped. Additional throughput fees are recognized if and when annual calendar shipments exceed 10,000 tons.

Intermountain Refining Co., Inc.

Notes to Financial Statements - Continued

Income Taxes: Deferred income tax expense and benefits are provided on temporary differences arising from the timing of recognition of income and expenses for financial reporting purposes and recognition for income tax purposes. Items that give rise to deferred taxes include: differences between straight line depreciation used for financial reporting purposes and statutory depreciation used for tax purposes; financial statement recognition of impairment losses on assets which are not deductible for income tax purposes until such losses are actually realized; cost depletion used for financial reporting purposes and statutory depletion used for tax purposes; differences between book and tax treatment of asset retirement obligations; and, financial statement recognition of operating and capital losses which are carried forward to future years for income tax purposes. Deferred tax assets are limited to amounts considered to be realizable in future periods.

Earnings Per Share: Income (loss) per share is based on the weighted average number of common shares outstanding during each period.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments: The carrying amount of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity of these amounts. None of Intermountain's financial instruments are held for trading purposes.

Available for Sale Investments: Available for sale investments include investments in publicly traded equity securities and oil and gas royalty trusts, and brokerage money market accounts. The carrying amounts of Intermountain's available for sale investments are reflected at fair value. Unrealized holding gains and losses in the market value of the investments are reported as other comprehensive income (loss) and included in changes in equity.

Concentration of Credit Risk: Intermountain generates substantially all of its natural gas revenues from one customer. Intermountain generates all of its asphalt manufacturing and storage revenues from one customer, Paramount Petroleum Corporation. Intermountain has not experienced any credit losses with respect to its natural gas or asphalt manufacturing and storage receivables. Accordingly, no provision for doubtful accounts on such receivables has been recorded by Intermountain. Collateral is not required on oil and natural gas receivables or asphalt manufacturing and storage receivables.

Other Comprehensive Gains and Losses: Other comprehensive income includes unrealized gains and losses on changes in the value of available for sale investments and is recorded as changes in equity. Reclassification adjustments for realized gains and losses are reflected in earnings on the statements of income.

Note B - Accounts Receivable

Accounts receivable consists of amounts due from customers for sales of oil and natural gas, equipment rental, office space rental, and services rendered. Credit sales are generally made on terms of net 30 days in accordance with normal industry practice. Intermountain performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The past due status of a receivable is determined based on the timeliness of payments as based upon the agreed-upon credit terms. Management does not believe that an allowance for bad debts on accounts receivable is necessary.

Note C - Other Assets

Other assets consist of the following as of February 28, 2007:

Cash value of life insurance contracts	\$ -
Utility deposits	<u>275</u>
	<u>\$ 275</u>

Intermountain Refining Co., Inc.
Notes to Financial Statements - Continued

During the year ended February 28, 2006, Intermountain surrendered its only remaining life insurance contract for \$37,089.

Note D - Asphalt Product Storage Services

Effective January 1, 2002, Intermountain leased its asphalt storage and processing equipment to Paramount Petroleum Corporation for \$3,200 per month plus a throughput fee of \$5.50 per ton for asphalt products shipped from the facility during the term of the agreement. In addition, if annual product shipments from the facility exceed 10,000 tons, Paramount will pay an additional throughput fee of \$4.50 per ton, applicable to all tons shipped during the year. The initial term of the agreement expired on January 1, 2003 but has been automatically extended on a year to year basis under the extension terms of the agreement. For the year ended February 28, 2006, Intermountain recognized equipment rental revenues of \$38,400 and throughput fees of \$180,678. For the year ended February 28, 2007, Intermountain recognized equipment rental revenues of \$38,400 and throughput fees of \$115,925.

Note E - Available-For-Sale Investments

Available-for-sale investments consist of the following at February 28, 2007:

<u>Description</u>	<u>Cost</u>	<u>Unrealized gain/(loss)</u>	<u>Estimated Fair Value</u>
Investment in natural gas royalty trusts *	\$ 39,615	\$ 29,183	\$ 68,798
Investment in common stock equities	14,781	23,750	38,531
Brokerage money market accounts	<u>17,387</u>	<u>0</u>	<u>17,387</u>
Total investments available for sale	<u>\$ 71,783</u>	<u>\$ 52,933</u>	<u>\$ 124,716</u>

*Cost net of accumulated depletion of \$9,718.

Investments in royalty trusts and common stock equities are stated at their estimated fair value as of the balance sheet date presented. Unrealized holding gains and losses in market value of investment securities are classified as comprehensive gain and loss and included as an increase or reduction of stockholders' equity. Unrealized holding gains/(losses) in market value of investment securities were \$18,144 for the year ended February 28, 2006 and \$(3,462) for the year ended February 28, 2007.

Gains and losses on the sale of investment securities (when incurred) are determined using the first-in first-out method. Given that the investments are in royalty trusts and common stock equities, no contractual maturities exist that would require separate disclosure. The fair market values of the investments are subject to ongoing fluctuation. The amount ultimately realized upon disposition will be different from the amounts reported in these financial statements.

Note F - Notes Receivable

Notes receivable consisted of the following as of February 28, 2007:

7% Note receivable dated February 27, 2006 payable in 12 equal monthly installments beginning March 20, 2006, secured by oil well equipment located in Kimball County, Nebraska	\$ 4,806
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Intermountain Refining Co., Inc.
Notes to Financial Statements - Continued

Note G - Income Taxes

Income tax expense (benefit) differs from income tax at the statutory rate as follows:

	February 28, <u>2006</u>	February 28, <u>2007</u>
Income at statutory rate	35%	35%
State income taxes	(2) %	1%
Expenses not deductible for tax purposes	10%	- %
Change in valuation allowance	<u>(43)%</u>	<u>(18)%</u>
Income tax expense (benefit)	<u>- %</u>	<u>18 %</u>

Income tax expense (benefit) for the periods indicated consists of the following:

	<u>For the years ended</u>	
	February 28, <u>2006</u>	February 28, <u>2007</u>
Current		
Federal	\$ -	\$ 158,308
State	212	29,022
Deferred		
Federal	1,257	259,740
State	202	40,710
Change in valuation allowance	<u>(1,459)</u>	<u>(299,950)</u>
Total income taxes	<u>\$ 212</u>	<u>\$ 187,330</u>

As of February 28, 2007, Intermountain has capital loss carryforwards for Federal and state income tax purposes as shown in the following table. Capital losses can be carried forward for 5 years for both Federal and state income tax purposes and can only be used to offset capital gains. A valuation allowance has been provided on all of the capital loss carryforwards as realization of the tax benefit is uncertain.

<u>Year Generated</u>	<u>Capital Loss Carryforward</u>	<u>Year Expires</u>
2003	\$ 21,139	2008
2005	<u>901</u>	2010
Total	<u>\$ 22,040</u>	

Deferred tax assets/(liabilities) as of February 28, 2007 consist of the following:

Net deferred tax asset arising from book and tax basis differences in depreciable assets	\$ 39,436
Deferred tax asset arising from book accrual of asset retirement obligations	386
Deferred tax asset arising from capital loss carryforwards	7,714
Deferred tax liability arising from deferral of gain on receipt of stock from demutualization of a life insurance company	(5,173)
Valuation allowance provided for net deferred tax assets	<u>(42,363)</u>
Deferred taxes receivable/(payable)	<u>\$ -</u>
Deferred tax liability from unrealized holding gain on available for sale investments recorded as other comprehensive income	<u>\$ (18,527)</u>

Intermountain Refining Co., Inc.

Notes to Financial Statements - Continued

Note H - Related Party Transactions

Following are descriptions of transactions involving Intermountain and other related parties that occurred during the past two fiscal years. In the opinion of management, the terms of the transactions discussed are believed to be at least as favorable to Intermountain as those that could have been secured in arm's length transactions.

Red Hills Manufacturing, Inc. is a small wood products manufacturing company located in Fredonia, Arizona of which Mr. Hagler (President, Director and shareholder) and Mr. Hurt (Treasurer, Secretary, Director and shareholder), among others, are officers, directors, shareholders, and employees. Prior to April 1, 2005, Intermountain performed certain management and accounting services for Red Hills for a fixed fee of \$3,000 per month. Effective as of April 1, 2005, Intermountain agreed to allow Red Hills to directly employ Mr. Hagler, Mr. Hurt and one other employee, on a part time basis, and compensate them directly to perform such management and accounting services. Red Hills agreed to continue to pay Intermountain \$250 per month to compensate for incidental use of office resources. Amounts received from Red Hills were \$5,750 for the year ended February 28, 2006 and \$3,000 for the year ended February 28, 2007.

During the year ended February 28, 2007, Intermountain sold approximately 1 acre of land at its Fredonia facility to Red Hills for \$7,500. The odd shaped parcel was encumbered with perpetual easements and borders with land owned by Red Hills and one of the land parcels included in the sale of the electric generation equipment. On the date of closing, the carrying value of the parcel was \$732, which resulted in a \$6,768 gain on the sale after \$50 in selling expenses.

Note I - Commitments and Contingencies

Environmental Matters: Intermountain has been involved in the manufacture, storage, and sale of petroleum products since 1984, which exposes Intermountain to potential claims for environmental remediation costs, if any, of sites operated by Intermountain. Except as discussed below, Intermountain is not aware of any claims pending for such sites.

In April, 2005, Intermountain began the process of dismantling the portions of its refining equipment at its Fredonia facility that are no longer used for ongoing operations and were not expected to be used in the future. As part of the dismantling process, Intermountain identified the presence of asbestos containing materials in portions of the equipment being dismantled. Intermountain engaged a consultant to evaluate the extent of asbestos present on the site and to prepare a plan for the abatement and removal of the material. During the year ended February 28, 2006, Intermountain incurred \$276,212 in consulting and abatement costs associated with the removal of the material. Intermountain believes that abatement and disposal of the asbestos containing materials had been completed as of February 28, 2006, and does not expect to incur any material abatement costs in the future.

Intermountain recognized \$29,505 in 2006 and \$11,141 in 2007, from the salvage of metals and used equipment removed from the facility.

Sale of Kansas Natural Gas Producing Properties: On February 28, 2007, Intermountain sold all of its interest in the leases, wells and equipment associated with the natural gas producing properties located in Scott and Finney Counties, Kansas. In accordance with the sale price provisions of the sale agreement, Intermountain is entitled to receive additional compensation of \$370,000 contingent upon restoration of production from one gas unit that, due to a significant casing failure, was not producing natural gas as of the date of sale. Intermountain continued repair efforts subsequent to February 28, 2007 and recently opted to drill a replacement well near the location of the existing well. It is presently estimated that Intermountain will incur approximately \$200,000 in costs associated with repair efforts and drilling and completion costs associated with the property. While there is no assurance that natural gas production from the unit can be successfully restored, Management believes that there is a reasonable probability that such can be accomplished.

Note J - Simple IRA Plan

Intermountain maintains a SIMPLE IRA plan for the benefit of all of its full time employees. The plan provides for the elective deferral of employee wages, subject to annual limits established by the Internal Revenue Service, and provides a mandatory employer matching contribution. Mandatory matching contributions are the lesser

Intermountain Refining Co., Inc.
Notes to Financial Statements - Continued

of 3% of employee compensation or the amount of elective deferrals. Intermountain may elect to reduce the matching percentage to 1% for two out of five consecutive calendar years. Intermountain made matching contributions of \$5,385 in 2006 and \$5,385 in 2007.

Note K - Financial Information Relating to Industry Segments

Intermountain's major industry segments are oil and natural gas production and the leasing of asphalt product manufacturing and storage facilities. Intermountain also rents office space in its Farmington, New Mexico office building and, in addition to the overall management of Intermountain, management occasionally performs management and consulting services for others. All costs and expenses associated with the overall management of Intermountain and other miscellaneous activities are included under "Other" in the following segment information. Selected financial information relating to these segments, is as follows:

	<u>Years Ended</u>	
	<u>February 28,</u> <u>2006</u>	<u>February 28,</u> <u>2007</u>
Revenues		
Asphalt product manufacturing and storage facilities	\$ 219,078	\$ 154,325
Oil and natural gas production	983,637	670,621
Other	<u>29,295</u>	<u>25,818</u>
	<u>\$ 1,232,010</u>	<u>\$ 850,764</u>
Operating Profit (Loss)		
Asphalt product manufacturing and storage facilities *(1)	\$ (39,744)	\$ 142,821
Oil and natural gas production *(2)	413,199	1,106,451
Electric generation	(120,430)	4,936
Other	<u>(246,202)</u>	<u>(232,440)</u>
	<u>\$ 6,823</u>	<u>\$ 1,021,768</u>
<p>*(1) Includes asbestos abatement costs of \$276,212 and gain from equipment salvage of \$29,505 during 2006. Includes gain from sale of land and equipment salvage of \$17,909 during 2007.</p> <p>*(2) Includes gain on sale of Kansas properties of \$918,085 during 2007.</p>		
Identifiable Assets		
Asphalt product manufacturing and storage facilities	\$ 107,214	\$ 22,963
Oil and natural gas production	715,841	461,035
Electric generation equipment available for sale	212,643	-
Other	<u>993,424</u>	<u>2,532,684</u>
	<u>\$ 2,029,122</u>	<u>\$ 3,016,682</u>
Depreciation and Depletion		
Asphalt product manufacturing and storage facilities	\$ 571	\$ 570
Oil and natural gas production	49,304	43,795
Electric generation	-	-
Other	<u>638</u>	<u>638</u>
	<u>\$ 50,513</u>	<u>\$ 45,003</u>

Capital Expenditures - During the year ended February 28, 2006, Intermountain capitalized \$21,945 for the drilling of one in-fill natural gas well in New Mexico, including \$175 for estimated future plugging and abandonment costs.

Major Customers - Intermountain sold substantially all natural gas produced from the Kansas gas properties to one customer. Natural gas sales to the customer, net to Intermountain's interest, were approximately \$737,000 for the year ended February 28, 2006, and \$485,000 for the year ended February 28, 2007. Intermountain leases its asphalt products manufacturing and storage equipment to one customer. Equipment lease and fees revenues received from the customer were approximately \$219,000 for the year ended February 28, 2006 and \$154,000 for the year ended February 28, 2007.

Intermountain Refining Co., Inc.
Notes to Financial Statements - Continued

Note L - Oil and Gas Properties

Intermountain owned and operated certain proven and developed natural gas reserves and related production equipment located in Southwestern Kansas. The properties in Kansas were sold on February 28, 2007. Intermountain currently owns, but does not operate, working interests in certain proven and developed natural gas reserves and related production equipment located in Northwestern New Mexico. Intermountain owned working interests in, but did not operate, certain proven and developed oil reserves in Southwestern Nebraska. The properties in Nebraska were sold on November 1, 2005. Intermountain is presently seeking to acquire existing developed and producing oil and/or gas reserves within the United States but has not identified any properties that meet Intermountain's criteria. Intermountain may participate in the drilling of additional development wells on its leased properties, however, there are no current plans to drill or complete any additional wells on the New Mexico leases.

Capitalized Costs: Capitalized costs relating to oil and gas producing activities are as follows at February 28, 2007:

Proved oil and gas properties	\$ 439,974
Unproved oil and gas properties	-
Less accumulated depletion	<u>(70,751)</u>
Net capitalized costs	<u>\$ 369,223</u>

Results of Operations: Results of operations of oil and gas producing activities, excluding overhead and interest allocations, for the periods indicated are as follows:

	<u>For the years ended</u>	
	February 28, <u>2006</u>	February 28, <u>2007</u>
Revenues		
Oil and natural gas sales	\$ 983,637	\$ 670,621
Costs and Expenses		
Operating costs	510,740	428,714
Accretion of discount on future plugging and abandonment costs	2,506	2,131
Loss on settlement of plugging and abandonment costs	-	7,615
Depletion, depreciation and amortization	<u>49,304</u>	<u>43,795</u>
	<u>562,550</u>	<u>482,255</u>
Income before taxes	421,087	188,366
Income tax expense	<u>147,380</u>	<u>65,928</u>
Net income	<u>\$ 273,707</u>	<u>\$ 122,438</u>
Gain/(loss) on sale of oil and natural gas producing properties, net of income taxes	<u>\$ (5,127)</u>	<u>\$ 596,753</u>

Effective as of November 1, 2005, Intermountain sold all of its interest in the Kimball County, Nebraska oil producing properties to an unrelated third party for \$38,500. The carrying value of the property at the time of sale was \$55,364, net of accumulated depletion of \$7,663. Satisfaction of the selling price consisted of a cash down payment of \$14,181, a short-term promissory note of \$24,319, and release from accrued asset retirement obligations of \$8,976.

In January 2006, Intermountain participated in the drilling of an in-fill well on existing lease acreage in New Mexico. Intermountain's share of capitalized development costs were \$21,945, including \$175 for the present value of estimated future asset retirement obligations. Changes in gas reserves associated with the new well, if any, have not yet been determined.

Effective February 28, 2007, Intermountain sold all of its interest in the Scott and Finney Counties, Kansas natural gas producing properties to an unrelated third party for \$1,100,000. The carrying value of the property at the time of sale was \$206,342, net of accumulated depletion of \$786,725. Satisfaction of the selling price consisted of a cash payment of \$1,100,000 and release from accrued asset retirement obligations of \$23,695. Intermountain may

Intermountain Refining Co., Inc.
Notes to Financial Statements - Continued

receive additional compensation of up to \$370,000, contingent upon the successful return of production of one of the gas units sold. See Note I

Note M - Oil and Gas Reserve Data and Supplemental Data (Unaudited)

In accordance with Statement of Financial Accounting Standards No. 69, the following unaudited information is presented with regard to Intermountain's proved oil and gas reserves. Information for gas is presented in million cubic feet (MMcf) except where otherwise indicated in thousand cubic feet (Mcf). Information for oil is presented in barrels (Bbls).

Production: Intermountain's oil and natural gas production, average sales price and production cost for the periods indicated are as follows:

	<u>For the years ended</u>	
	February 28, 2006	February 28, 2007
Net gas production (Mcf)	185,856	164,164
Average sales price (\$/Mcf)	\$ 5.147	\$ 4.085
Average production cost (\$/Mcf)	\$ 2.674	\$ 2.611
Net oil production (Bbls)	548.00	0
Average sales price (\$/Bbl)	\$ 49.370	N/A
Average production cost (\$/Bbl)	\$ 25.279	N/A

Reserves: Oil and natural gas reserves as of February 28, 2007 are based on data developed internally by Intermountain.

Estimated net quantities of proved developed and proved undeveloped oil and gas reserves are as follows at February 28, 2006:

	Oil (Bbls)	Gas (MMcf)
Proved developed	-	311
Proved undeveloped	-	-
	<u>-</u>	<u>311</u>

Statement of Changes in Quantities of Proved Developed and Undeveloped Oil and Gas Reserves for the years indicated are as follows:

	<u>For the year ended</u> <u>February 28, 2006</u>		<u>For the year ended</u> <u>February 28, 2007</u>	
	<u>OIL</u> (Bbls)	<u>GAS</u> (MMcf)	<u>OIL</u> (Bbls)	<u>GAS</u> (MMcf)
Proved reserves - beginning of year	14,074	2,660	-	2,447
Acquisition of reserves in place	-	-	-	-
Sale of reserves in place	(13,526)	-	-	(1,966)
Revisions to previous estimates (1)	-	(27)	-	(6)
Production	<u>(548)</u>	<u>(186)</u>	<u>-</u>	<u>(164)</u>
Proved reserves - end of period	<u>-</u>	<u>2,447</u>	<u>-</u>	<u>311</u>

(1) The decrease in previous estimates for the year ended February 28, 2006 was due to the write down of reserves associated with a Kansas well that suffered an irreparable casing failure. Drilling of a replacement well on the leased acreage was not considered economically viable. The decrease in previous estimates for the year ended February 28, 2007 was due to the write down of reserves associated with a New Mexico well that was plugged and abandoned during the year.

Intermountain Refining Co., Inc.
Notes to Financial Statements - Continued

The Standardized Measure of Discounted Future Net Cash Flows relating to Proved Oil and Gas Reserves are as follows at February 28, 2007:

	(\$/1000)
Future cash inflows	\$ 2,136
Future production costs	(1,019)
Future plugging and abandonment costs	(16)
Future income tax expense	<u>(258)</u>
Future net cash flow	843
Ten percent discount factor	<u>(428)</u>
Standardized measure of discounted future net cash flows	\$ <u>415</u>

Changes in the Standardized Measure of Discounted Future Net Cash Flows From Proved Oil and Gas Reserve Quantities for the periods indicated are as follows:

	<u>For the years ended</u>	
	February 28, <u>2006</u>	February 28, <u>2007</u>
	(\$/1000)	(\$/1000)
Standardized measure - beginning of year	\$ 1,873	\$ 2,101
Acquisition of reserves in place	-	-
Sale of reserves in place	(33)	(1,100)
Revisions to previous quantity estimates	(21)	(8)
Sales, net of production costs	(328)	(230)
Income taxes	(41)	525
Changes in present value due to price and production cost changes (Including accretion of discount)	<u>651</u>	<u>(873)</u>
Standardized measure - end of period	\$ <u>2,101</u>	\$ <u>415</u>

Developed and Undeveloped Acreage: The following summarizes Intermountain's gross and net undeveloped and developed acreage at February 28, 2007:

	<u>Gross</u>	<u>Net</u>
Developed Acreage		
Kansas	-	-
Nebraska	-	-
New Mexico	5,419	541
Undeveloped Acreage	-	-

"Gross Acres" refers to the number of acres in which Intermountain owns a working interest. "Net Acres" refers to the sum of the fractional working interest owned by Intermountain in gross acres.

Other: Intermountain held interests in the following wells at February 28, 2007:

	<u>Gross</u>	<u>Net</u>
Producing gas wells	15	1.85
Producing oil wells	-	-

Intermountain Refining Co., Inc.
Notes to Financial Statements - Continued

Note N - Asset Retirement Obligations

Accounting for asset retirement obligations relates to legal obligations associated with the retirement of long lived assets. Intermountain has a legal obligation to incur plugging and abandonment costs associated with its oil and gas operations.

Changes in Intermountain's asset retirement obligations for the periods indicated are as follows:

	<u>For the years ended</u>	
	February 28, <u>2006</u>	February 28, <u>2007</u>
Asset retirement obligation - beginning of year	\$ 38,638	\$ 32,343
Sale of oil and natural gas producing properties	(8,976)	(23,695)
Acquisition of oil and natural gas producing properties	175	-
Settlement of asset retirement obligations	-	(11,624)
Loss on settlement of asset retirement obligations	-	7,615
Accretion of discount	<u>2,506</u>	<u>2,131</u>
Asset retirement obligation - end of period	<u>\$ 32,343</u>	<u>\$ 6,770</u>

Note O - Electric Generation Equipment Held For Sale

In November 2006, Intermountain sold its electric generation facility, including associated land, building and fuel inventory, to a regional electric power distributor for \$269,820. In accordance with the 2005 memorandum of understanding between Intermountain and the purchaser, Intermountain agreed to transfer operational equipment that was capable of successfully completing a 24-48 full load test run. Intermountain incurred improvement costs of \$57,505 in 2006 and \$52,241 in 2007, which were deemed necessary to insure that the generators would successfully complete the test run. At the time of the sale, the electric generation facility had a combined carrying value of \$264,884, net of impairment of \$440,935. The impairment in value reflected the estimated amount by which the carrying value of the equipment (including land, building, fuel inventory and recent improvements) exceeded the estimated proceeds from the sale.

(End of Integrated Annual Report to Shareholders)

Exhibits and Reports on Form 8-K

Reports on Form 8-K:

There were no reports on Form 8-K filed by Intermountain during the quarter ended February 28, 2007 except as follows:

On March 14, 2007, Intermountain filed a report on Form 8-K to report the sale of its Kansas natural gas producing properties.

Exhibits:

Exhibit	Description
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Bylaws (1)
10.4	Oneok / Kinder Morgan / KN Energy Gas Sales Agreement (1)
10.5	Paramount Petroleum Agreement - November 1999 (1)
14.1	Code of Ethics (2)
31.1	Certification under Rule 13a-14(a)/15d-14(a) of Rick L. Hurt, Secretary, Treasurer, Director
31.2	Certification under Rule 13a-14(a)/15d-14(a) of William N. Hagler, President, Director
99.1	Certification of Chief Executive Officer under Sec.906 of Sarbanes-Oxley Act of 2002
99.2	Certification of Chief Financial Officer under Sec.906 of Sarbanes-Oxley Act of 2002

(1) Incorporated herein by reference to Intermountain's registration statement filed on Form S-1 dated April 9, 2001.

(2) Incorporated herein by reference to Intermountain's Form 10-KSB for the year ended February 28, 2006, as filed with the Commission on May 17, 2006.

Signatures

Pursuant to the requirements of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Farmington, State of New Mexico, on May 22, 2007.

Intermountain Refining Co., Inc.

By: /s/ William N. Hagler
William N. Hagler, President

Pursuant to the requirements of the Exchange Act, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

/s/ William N. Hagler Date: May 22, 2007
William N. Hagler, Chairman of the Board of
Directors, and President

/s/ Rick L. Hurt Date: May 22, 2007
Rick L. Hurt, Secretary, Treasurer, Director